



# Performance Perspective

Report 2000-1

CITY OF SEATTLE

January 24, 2000

**Performance Perspective** is a periodic newsletter issued by the Office of City Auditor to highlight general management principals or to disclose successful, useful, or problematic program-management issues. Please send your comments, suggestions, questions, or concerns regarding these reports, or ideas for future reports, to Susan Cohen, City auditor, MS 01-1-01, telephone 233-1093, or email: [susan.cohen@ci.seattle.wa.us](mailto:susan.cohen@ci.seattle.wa.us).

## Understanding the Finances of KeyArena

Seattle Center is responsible for the financial management of the KeyArena. The primary financial management goal for KeyArena is servicing the \$73.4 million bond acquired to remodel the old Coliseum, which has an annual cost of \$7.55 million. Important tasks that must be accomplished by Seattle Center to reach this goal are providing 125 quality events to KeyArena Luxury Suite holders,

managing labor costs, and collecting accounts receivable. The purpose of this newsletter is to relate Seattle Center's management task to the KeyArena's financial statements. The chart below presents the revenues and expenses for 1996 through 1998 - the first three full years of operations.

FINANCIAL STATEMENTS	1996	1997	1998
<b>Revenues</b>			
Rent	\$ 2,175,121	\$ 2,310,551	\$ 2,261,155
Reimbursed Expenses	625,364	633,459	762,476
Concessions	400,771	524,536	646,916
Novelties	60,577	132,412	266,551
Ticketmaster Fee	153,154	171,533	283,016
Suites	3,939,774	4,388,459	3,763,930
Club Seating	3,053,653	2,693,940	433,472
Advertising	185,600	150,000	100,000
Sponsorship	642,300	670,746	700,385
Interest	52,787	93,433	107,885
Admission Tax	1,602,841	1,816,846	1,450,885
Support from General Fund			2,408,640
<b>Total Revenues</b>	<b>\$ 12,891,942</b>	<b>\$ 13,585,915</b>	<b>\$ 13,185,311</b>
<b>Expenses</b>			
Manager and Staff	\$ 508,511	\$ 418,581	\$ 442,511
Event Cleaning and Maintenance	1,520,870	1,555,067	1,206,524
Admissions Labor	989,848	952,421	784,562
Event Stage/Sound/Trades Labor	626,102	614,146	583,351
Utilities	312,654	257,613	190,223
Seattle Center Overhead	659,311	746,247	803,883
Special Maintenance	176,088	252,241	154,213
Marketing Services	261,421	65,920	22,188
Taxes	472,986	374,074	217,462
Debt Services	5,369,424	7,549,424	7,551,895
<b>Total Expenses</b>	<b>\$ 10,897,215</b>	<b>\$ 12,785,734</b>	<b>\$ 11,956,812</b>
Rebate to Suite Holders			(1,000,000)
Expected Contribution	(1,000,000)	(1,000,000)	(1,000,000)
<b>Revenues Less Expenses</b>	<b>\$ 994,727</b>	<b>\$ (199,819)</b>	<b>\$ (771,501)</b>
Renovation Fund	(550,000)	(550,000)	(665,000)
<b>Profit (Loss)</b>	<b>\$ 444,727</b>	<b>\$ (749,819)</b>	<b>\$ (1,436,501)</b>

## **Revenues**

Seattle Center receives revenues for KeyArena from various sources. Each year, Seattle Center's goal is to collect enough revenue to pay for the KeyArena's expenses and debt service. The largest KeyArena revenue sources are explained below.

**Rents** - KeyArena rents are received from three sources: Sonics basketball (\$800,000 per year with \$533,000 in the lockout shortened 1998 season), Thunderbirds hockey (\$275,000 per year), and other entertainment events (over \$1 million per year). Except for the long-term agreements with the Sonics and Thunderbirds, an event's rent is based on ticket sales. All events have a minimum rent depending on the type of event, number of performances, and space used. Minimum rents range from \$7,000 for a small family show to \$15,000 for a large rock concert. If minimum tickets sales are achieved, promoters pay six to nine percent of gross sales. KeyArena base rents are less than industry standards. Most publicly owned NBA facilities charge between 12 to 25 percent of gross ticket sales for rent. However, Seattle Center needs to keep KeyArena's rents low because of stiff competition. Promoters can take their acts to the Tacoma Dome, Gorge (promoter-owned), Portland's Rose Garden, or Vancouver's GM Place. In the future, the new promoter-owned White River Amphitheater in Auburn will also be a strong competitor.

The rent paid by the Sonics does not cover the City's expenses. KeyArena's cleaning, admissions, and security expenses are greater than the \$19,500 in rent paid by the Sonics per game. Because the rent does not cover expenses, the other revenues earned because of Sonics' games, such as parking, become very important.

Seattle Center settles non-sports contract payment issues immediately after an event takes place. It has access to Ticketmaster funds for such events before they are remitted to promoters so bad debt is never a problem. If the Sonics or Thunderbirds are late with rent, interest is charged. This has happened and both organizations have paid the interest when charged.

**Reimbursed Expenses** - All tenants, except the Sonics and Thunderbirds, reimburse Seattle Center for event labor including admissions, stage, sound, security, police, and medics. Catering and utilities are also reimbursable expenses. Rent prices include cleaning and basic maintenance. KeyArena's rents are less expensive than other publicly owned NBA facilities which also charge cleaning fees of \$3,000-\$5,000 per event.

Even though KeyArena's three major non-sports clients state that KeyArena is a first-class facility, they believe its expense reimbursement rates are too high because of poor labor utilization. For example, the Charlotte Coliseum caps reimbursable staffing at \$13,500. At the KeyArena, the staffing costs to a promoter for a rock concert would be in excess of \$30,000. However, Seattle Center management has little control over KeyArena's labor utilization because it must reach agreement on such matters with the Seattle Police and Fire Departments.

Privately owned and/or operated facilities, such as Bradley Center in Milwaukee or Fleet Center in Boston do not have event rent schedules or expenses; instead, they charge a negotiated flat rate for an event. Given that the number of touring arena-sized productions is decreasing every year, Seattle Center may need to use negotiated rents to maintain its event quota for KeyArena.

**Concessions** - Sportservice Corporation is, by contract with Full House Sports and Entertainment (the business and marketing company for the Sonics), the sole food concessionaire for the KeyArena. (The agreement also requires that the City take reasonable measures to prohibit ticket holders from bringing food or drink into the arena.) Sportservice shares non-Sonics' event concession proceeds with the City. In 1996, the City's share was 40 percent. Each year the City's share declines one percent until it stabilizes at 30 percent. Concession revenue is one of the most important for KeyArena because it does not carry an associated expenditure. In other words, this revenue is similar to "profit". The City has considered allowing sports spectators and concertgoers to bring their own food into KeyArena. If the KeyArena loses or experiences a decrease in its revenue sources, the City's General Fund will have to be used to pay more of the KeyArena's costs. In other words, the City will increase its subsidy of KeyArena events.

In order to ensure that the Sonics are paying the City the correct amount for concession royalties, Seattle Center has the right to audit the Sonics once every three years. The first audit will take place in January 2000. The City Auditor will review the audit's results.

**Novelties** - Except for Sonics and Thunderbirds games, Seattle Center contracts with a private vendor to handle novelty merchandise sales. (The City does not receive a share of novelty sales for Sonics and Thunderbirds sports events.) As with concessions, this is a revenue source without associated expenditures. The City receives between 13 to 15 percent of after tax proceeds. In January 2000, Seattle Center will conduct an audit of the private vendor to determine if the proper amounts were remitted to the City. The City Auditor will review the audit's results.

**Suites** - The KeyArena has 58 luxury suites. Four suites are not leased to the public: one is provided to Full House Entertainment (Sonics), one to Key Bank (see Sponsorship below), and two are held by the City for single event sales. Single event suite prices range from \$250 to \$6,500. Suite lease prices range from \$60,000 to \$150,000 per year. Gross proceeds are split on a percentage basis between Full House Entertainment and the City. In 1996, the City received 80 percent of suite revenues. Each year the City's share decreases by two percent until the City's share stabilizes at 60 percent.

The most important contribution to the KeyArena's financial success is leasing its 56 Luxury Suites. The KeyArena faces competition from Seattle's baseball and football teams for luxury suite leases. The Sonics' win/loss record is the biggest factor affecting the number of KeyArena Luxury Suites that are leased. While the Seattle Center can not influence the Sonics' win/loss record, it does control the quality of non-sports events that are provided to suite holders. Every year it is a significant challenge for Seattle Center to provide suite holders with up to 48 quality non-sports events. (The total is 48 if the Sonics or Thunderbirds do not reach the play-offs because they provide 77 regular season games. Seattle Center commits to providing suite holders annually with 125 events.)

The biggest barriers faced by Seattle Center marketing staff in finding 48 non-sports events are: the price of using KeyArena for an event compared to the Tacoma Dome (20 percent higher), a decreasing number of arena-sized touring concerts and events, and the increase of promoter-owned facilities (The Gorge and White River). However, Seattle Center has been successful in finding non-sports events for KeyArena since it has opened. This success is due to the KeyArena's location in a large city, its reputation as a top-notch facility, and strong marketing efforts by Seattle Center.

Concert business increased from 10 shows in 1996 to 21 shows in 1998.

To prepare for the future, Seattle Center started a co-promotion program in 1999 which requires the City to share ticket sales risk with promoters. This encourages acts to use KeyArena that would normally play smaller or different venues. The program offers potential benefits to the City in that it can increase KeyArena revenues through additional events and increase the quality of provided events. The risk is that the City can lose money if an insufficient number of tickets are sold for an event. The first co-promotion, a December 7, 1999 Bette Midler concert, was a sell-out with gross sales exceeding \$1.0 million. Seattle Center plans to continue the co-promotion program. It could be more important as competition for touring concerts and events increases.

**Club Seating** - The KeyArena has 1,112 Club Seats (used for sporting events): 1,055 are leased by the season and 57 are sold on a per game basis. In 1998 seat prices were \$104 or \$130 per game. Gross proceeds from leased and single game sales are split on a percentage basis between Full House Entertainment and the City. In 1996 the City's share was 60 percent. The City's share decreases each year until it stabilizes at 40 percent. Seattle Center does not have any control over Club Seating revenues. The revenues are determined by ticket prices, which are set by the Sonics, and the popularity of Sonics' games which are dependent on the Sonics' win/loss record.

**Ticketmaster Fees** - The City receives royalties on tickets sold through Ticketmaster. In addition, Ticketmaster pays the City interest earned on ticket revenues before disbursements to promoters.

**Advertising** - Full House Entertainment pays an annual fee to the City for selling advertising space in the KeyArena. The fee began in 1995 at \$250,000 and declines by \$50,000 each year for five years. 1999 is the last year the City received advertising revenue.

**Sponsorship** - Key Bank purchased the sponsorship (and naming rights) of the KeyArena for 15 years. The sponsorship fee is \$750,000 annually and inflates by four percent per year. The fee includes one suite. The revenues associated with the suite lease are included on the Suites line of the financial statements above.

**Admissions Tax** - The City levies a five percent admissions tax on all KeyArena events. The portion of the tax revenue generated by Sonics' events is returned to Seattle Center.

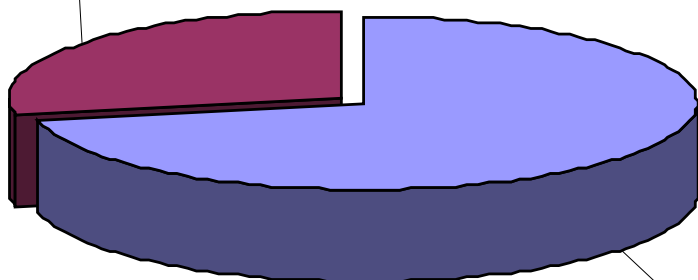
**Support from the General Fund** - Because of the NBA lockout, the Seattle Center did not earn enough revenue from the KeyArena to service its bond debt; therefore, Seattle Center received \$2.4 million from the City's General Fund. At the beginning of 1999, Seattle Center used approximately \$1.0 million of the \$2.4 million to rebate Luxury Suite holders for the lack of professional basketball games during the 1998/99 season. Seattle Center voluntarily provided the rebates even though other events were provided to Luxury Suite holders in place of Sonics' games.

## Expenses

As displayed in the chart below, the majority of the KeyArena's expenses, 75 percent, are fixed; that is, they do not increase or decrease based on the number of events. The most significant expenses are explained below.

### 1997 Expenses (in millions)

Variable  
\$3.6



Fixed

\$9.1

■ Debt Service, Overhead,  
Management, Special  
Maintenance

■ Event Labor &  
Expenses, Taxes

**Manager and Staff** – This expense covers the KeyArena Manager, Jyo Singh, and his staff. His staff include “Event Service Representatives” who represent the City in all matters relating to an event after a contract is signed. During interviews with KeyArena’s three biggest non-sports clients, we were told that Mr. Singh and his staff provide excellent service and are considered to be among the best facilities managers in the United States. The only complaint voiced by all three clients was management’s inability to control labor costs. They believed that other parties (i.e., non-management Seattle Center employees, the Fire Department, and the Police Department) had too much influence over KeyArena staffing levels.

**Event Cleaning and Maintenance** – This expense is the amount paid by Seattle Center for clean up, maintenance, and venue change tasks after an event. All labor is performed by Seattle Center employees. Based on 125 events, these tasks cost the City an average of over \$10,000 per event. All the arenas we surveyed used contract labor for cleaning at a cost of \$2,500 to \$5,000 per event and covered maintenance and venue configuration change costs with rent revenues. Based on the data we collected, it is difficult to say whether the KeyArena’s costs are reasonable. However, the costs are not directly recovered.

**Admissions Labor** – These are the expenses for the Seattle Center employees who take tickets and usher ticket holders to their proper seats. Generally, the Seattle Fire Department has the most influence over the number of admissions employees that must be on duty. The Sonics do not reimburse the Seattle Center for admissions labor. Other event sponsors pay for admissions labor. One concept Seattle Center is considering to reduce the cost of admissions labor is covering a portion of the arena so that the Fire Department will not need to recommend the assignment of a section usher in the covered areas. This will be especially important for WNBA games when the attendance probably won’t require normal staffing levels.

**Event Stage/Sound/Trades Labor** – These are expenses for the Seattle Center employees who set up stages, operate the sound system, and fulfill other event-related needs. This type of labor is reimbursed by the event sponsor except in the case of the Sonics.

**Utilities** – This expense includes the light, heat, garbage, water, and sewer for the building. At the end of 1997, Seattle Center installed meters for the concession stands. Sportservice, which reimburses the City for electricity, paid \$80,000 in 1998. These funds are included above in the Revenues portion of the financial statements under Reimbursed Expenses.

**Seattle Center Overhead** – This is a budget allocation representing the KeyArena’s share of Seattle Center’s overhead. This overhead mainly covers trades labor.

**Special Maintenance** – This category includes specialized one-time maintenance or equipment purchases for maintenance purposes.

**Marketing Services** - Seattle Center has a marketing staff that solicits business from promoters. This expense is the amount allocated for KeyArena’s share of the staff and related expenses. The allocation in 1997 and 1998 did not cover all of the costs of Seattle Center’s general marketing efforts that benefited the KeyArena. The expected annual contribution (see Expected Contribution section below) to Seattle Center is used for uncovered expenses. The 1996 amount of \$261,421 includes \$228,000 which was a General Fund loan repayment for marketing start-up costs.

**Renovation Fund** - The City is required to renovate the KeyArena after the conclusion of the 2002-03 NBA season. Per its contract with the Sonics, the City’s share of the renovation costs must be more

than \$3.5 million, and funds must be reserved for this purpose. The City’s General Fund was used to fund the reserve in 1996-98 at a cost of \$580,000 to \$700,000 per year. In 1999 and beyond, the reserve will be funded by the City’s Cumulative Reserve Fund. This might not be the case if General Fund money earmarked for community service events such as Bumbershoot was increased and then allocated to the KeyArena.

### **Expected Contribution to Seattle Center**

Revenue less expenditures is the KeyArena’s contribution to Seattle Center’s management and administrative expenses (excluding the renovation fund line item). Per an informal agreement with City officials, KeyArena’s annual contributions are expected to be \$1,000,000. This is considered a break-even point. In 1996 the contribution was over \$1,000,000 because debt service was only \$5.4 million (due to a reprieve under the bond covenants for the start-up period). In 1997 and 1998, the \$1,000,000 contribution goal was not reached. The 1998 shortfall was due to Seattle Center reserving \$1,000,000 to rebate luxury suite holders for the shortened NBA season.

In 1999 Seattle Center management realized that the expected contribution level could not be obtained. The main reasons were competitive and industry pressures, and the hosting of numerous non-revenue producing community events mandated by City officials. In 1999 the contribution was expected to decrease to \$887,000 and in 2000 to \$617,000.

Due to competition from other venues and the volatile popularity of professional sports, the KeyArena may not always meet contribution expectations. However, compared to Seattle’s baseball and football stadiums, the price paid by the City to operate KeyArena is low. The repayment of KeyArena’s debt has not required tax increases or new tax sources.

## **Rating Seattle Center’s Financial Management of KeyArena**

Even though the KeyArena’s revenues do not always cover its expenses, we found that the Seattle Center is doing a good job of managing the finances of KeyArena. They are meeting debt service payments, providing quality events to Luxury Suite holders (the most lucrative revenue source), and collecting all accounts receivable. Also, they plan to audit both concession contracts to further ensure all money due was paid.

With continued good financial management, the cost of owning the KeyArena should remain reasonable. Part of the challenge in keeping its costs reasonable is better labor utilization. Seattle Center should examine the cost of admissions, cleaning, and trades labor in other NBA facilities. When looking at the costs, Seattle Center officials should pay close attention to staffing levels and safety records. With this type of data, Seattle Center management will be in a better position to work with its employees, and the Police and Fire Departments to identify instances in which KeyArena event staffing requirements may be safely decreased.

The financial statements of the KeyArena do not describe some of the economic benefits that the facility provides to the City. The KeyArena not only increases the economic activity of lower Queen Anne and the Seattle Center campus, it also is one of the biggest contributors to Seattle Center’s total parking revenues which are in excess of \$4 million per year.



**INTEROFFICE MEMO**

To: Susan Cohen, City Auditor

From: Virginia Anderson, Director

Subject: **KeyArena Audit Report**

Date: April 12, 2000

CC: Tom Byers, Mayor's Office

Nick Licata, City Council

---

I am writing in reference to the KeyArena Performance Perspective which was published in early 2000. Critical review of financial records and management methods often leads to operational improvements. Similarly, periodic verification of financial reporting by an independent agency increases the confidence in the quality of an organization's management. For these reasons, I want to take this opportunity to thank you for the extensive time you and your staff dedicated to preparing the KeyArena information. We value your endorsement of our financial presentations and the management decisions we have made since opening the facility.

At the same time I want to provide you with some important clarifying comments which help make the information presented more accurate. I recommend that attached comments become a permanent attachment to the report and that the comments be provided each time the report is reproduced. In this way the reader will be able to more accurately understand the financial performance of the KeyArena.

## **KeyArena Audit Perspective**

In January 2000, the City Auditor's Office produced a "Performance Perspective" newsletter highlighting management of the KeyArena at Seattle Center. Two topic areas included in that publication benefit from additional clarification.

### Financial Summary

While stating that "we found that the Seattle Center is doing a good job of managing the finances of KeyArena", the newsletter's financial chart can actually create a different picture of the facility's financial performance as measured against expectations. This chart can be read in a misleading way because two key numbers have been included in a fashion not typically used when measuring the financial performance of any facility. These are:

1. "Expected Contribution". This contribution is the net profit remaining after paying all expenses including debt service and operating costs. The amount of the contribution was targeted to be \$1,000,000. Viewed in the historical context of the Seattle Center Coliseum, this contribution amount has varied widely from less than zero (a loss) to a high of \$1,200,000. During deliberations to rebuild the Coliseum, no formal commitment was made with the Mayor or Council to produce a certain level of profit.
2. The newsletter also adds the KeyArena Renovation Fund contribution as a net expense to the operating cost of the building. Seattle Center has never been expected to make this annual contribution. Each year the contribution has been made from other City sources. Just as with a community center or other city-owned facility, major maintenance costs are funded through the City's general financial resources.

### Event Cleaning and Maintenance

The newsletter reports that event cleaning costs the City an average of over \$10,000 per event. Based on survey data, the newsletter finds that cleaning costs at other venues average \$2,500 to \$5,000 per event. It should be noted that the venues surveyed include only event cleaning costs in their reported expenses figures. Seattle Center reports a summarized cleaning cost which includes basic event-related costs, venue configuration changes, office/crew area cleaning and associated supervisory expenses. Additionally, calculating a "per performance" cost (as opposed to per event) more appropriately measures the comparable workload. Adjusting for these variables, a revised set of figures show KeyArena costs to favorably compare with other venues.

Venue	Cleaning/Maintenance Costs per performance	Cleaning Costs per performance
KeyArena	\$6,420	\$3,750
Charlotte Coliseum	\$5,000	\$3,120
Continental Arena	\$12,000	\$4,000